



**Press Release**  
**Tirumala Balaji Alloys Private Limited**  
**October 19, 2023**  
**Rating Reaffirmed**

| Product                                   | Quantum<br>(Rs. Cr) | Long Term Rating                  | Short Term Rating      |
|---|---------------------|-----------------------------------|------------------------|
| Bank Loan Ratings                         | 27.00               | ACUITE BBB+   Stable   Reaffirmed | -                      |
| Bank Loan Ratings                         | 3.00                | -                                 | ACUITE A2   Reaffirmed |
| <b>Total Outstanding Quantum (Rs. Cr)</b> | 30.00               | -                                 | -                      |

**Rating Rationale**

Acuite has reaffirmed the long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating to '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.30.00 Cr bank facilities of Tirumala Balaji Alloys Private Limited (TBAPL). The outlook remains '**Stable**'.

**Rationale for Reaffirmation**

The rating considers the healthy business risk profile, backed by an established relationship with its customers and locational advantage. The Company has a longstanding offtake agreement with Tata Steel Mining Limited (TSMML). Despite TSMML merging with Tata Steel Ltd (TSL) in September 2023, the agreement, including the offtake clause, remains unchanged. The Company also supplies ferro alloys in the open market which contributes to almost 57% of revenues in FY2023. The rating also factors the moderation in profitability margins which decreased to 9.57% in FY2023 compared to 12.32% in FY2022. This has been mainly due to correction in prices of ferrochrome prices vis-à-vis raw material prices. The rating also factors the healthy financial position of the company characterized by a healthy adjusted net worth, comfortable gearing levels and robust debt protection metrics. The liquidity position of the company remains adequate with steady cash accruals against matured debt obligations, absence of debt funded capex plans and efficient working capital management. However, these strengths are partially offset by customer concentration risk and cyclical nature of the steel industry.

**About the Company**

Established in 2004, TBAPL is a company based in Chhattisgarh, led by Mr. Manish Rungta, Mr. Manoj Kumar Baheti, Mr. Ashok Garg, and Mr. Rajesh Agarwal. The company operates a high carbon ferro chrome facility in Raigarh, Chhattisgarh with a total installed capacity of 43,000 MTPA. TBAPL has a 5-year renewable off-take agreement with Tata Steel Mining Limited (TSMML), of upto 43,000 MTPA, valid until March 2025, and any surplus production is sold in the open market. Formerly a wholly owned subsidiary of TSL, TSMML has been amalgamated with TSL in September 2023. However, the agreement, which includes an off-take clause, remains unchanged post-amalgamation.

**Analytical Approach**

Acuite has taken a standalone view of the business and financial risk profile of TBAPL to arrive at the rating.

**Key Rating Drivers**



- **Established relationship with reputed corporates and locational advantage**

The company maintains a longstanding, decade-plus relationship with its customers. The 43,000 MTPA offtake agreement with TSML ensures stable revenue visibility over the medium term. The raw materials and power costs are reimbursed by TSML. Payment terms with TSML involve a 30-45-day window after goods receipt. The Company frequently gets these bills discounted by the bank, in case of need of funds. When engaging in open market sales, the company typically secures advances from customers to a week's payment cycle, effectively minimizing collection risks. Additionally, the Company also engages in exports from time-to-time based on opportunities mostly in Middle East and European markets.

The company's production facility is situated in the industrial zone of Raigarh, Chhattisgarh, strategically close to multiple steel plants and raw material sources. Additionally, the plant enjoys excellent connectivity through both road and rail transport, ensuring convenient transportation of raw materials and finished goods. Acuité believes that the Company will continue to benefit from the established relationship with its customers and locational advantage over the medium term.

- **Steady scale of operations albeit a decline in margin due to price correction of ferro alloys**

In FY2023, the company witnessed a marginal decline in revenue to Rs 295.30 Cr from Rs 304.51 Cr in FY2022. This has largely been due to lower than expected off-takes and price realisations in FY2023 vis-à-vis FY2022. In FY 2022, the ferro alloy prices were at an all-time high where; while prices of raw materials were comparatively lower. In FY2021 & FY2022, China had introduced high export taxes and anti-dumping duties on ferro alloys exports, thus providing demand opportunities to Indian players. Although presently the prices of ferrochrome have corrected itself, but the Company had benefitted on the same in FY2022. Till August 2023, the Company has attained revenues of Rs. 133 Cr and expects to clock similar revenues in FY2024.

In FY2023, the operating margins decreased to 9.57% compared to 12.32% in FY2022. This has been mainly due to correction in prices of ferrochrome prices vis-à-vis raw material prices. Most of the ferro alloy manufacturers experienced an increase in margins in FY2022, driven by high demand and elevated prices in the open market. Although reduced, but the margins have been in line with FY2021 levels and are expected to be in similar range over the medium term.

Since ~70% of its production is sold to TSML which are mostly in the nature of conversion charges, the company is protected against price fluctuations in raw material prices and procurement risks for, ensuring almost fixed margins from them. In FY2023, margins have stabilized around 9.57%, while the PAT margin stood at 7.19% in FY2023 compared to 8.55% in FY2022. The RoCE levels declined from 40.28% to 26.94%. Going forward, Acuité believes that the company is expected to have steady revenues and operating margins over the medium term.

- **Healthy financial risk profile**

The company's financial risk profile is marked by healthy adjusted networth, comfortable gearing and robust debt protection metrics. The adjusted tangible networth of the company stood at Rs. 108.49 Cr as on March 31, 2023 from Rs. 87.14 Cr as on March 31, 2022, due to accretion of reserves. Acuité has considered preference share of Rs.13.5 Cr as on March 31, 2023, as quasi-equity as the management has undertaken to maintain the amount in the business over the long term and the same will remain sub-ordinated to bank loans. The adjusted gearing of the company stood comfortable at 0.12 times as on March 31, 2023. The adjusted Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 0.62 times as on March 31, 2023. The robust debt protection metrics of the company is marked by Interest Coverage Ratio at 25.39 times as on March 31, 2023 and Debt Service Coverage Ratio at 4.66 times as on March 31, 2023. The Net Cash Accruals/Total Debt (NCA/TD) stood at 1.83 times as on March 31, 2023. Going forward, Acuité believes that the financial risk profile of the company will be healthy backed by steady accruals and no major debt funded capex plans.

- **Efficient working capital management**

The working capital management of the company is marked by Gross Current Assets (GCA) of 104 days in FY2023 as compared to 77 days in FY2022. The inventory days stood at 15 days as on 31 March 2023 in line with previous years. Further, the debtor period also stood comfortable at 48 days as on 31 March 2023 as compared to 39 days as on 31 March 2022. The debtor day stood low on account of the fact that TSML makes payment within 30-45 days and takes advances from customers or gives a credit of 7-10 days in the open market. Furthermore, the Company also discounts its bills from TSML occasionally. The Company has also extended interest bearing intercorporate deposits to a few companies to the tune of Rs. 25.5 Cr which reflects in the GCA. Against this, the Company enjoys credit of 60-90 days from its suppliers. The Company also utilises its bank limits (at ~77.32 per cent over the six months ended July, 2023) for funding its working capital requirements. Acuité believes that the working capital operations of the company will remain at similar level as evident from efficient collection mechanism and comfortable inventory levels over the medium term.

### **Weaknesses**

- **Customer concentration risk**

TBAPL is exposed to customer concentration risk as the company is dependent on TSML to drive its revenue profile. In terms of volume, almost 67% of the off-takes are from TSML where the Company receives the conversion charges. However, in terms of value, the overall sales in the open market (both domestic and exports) contribute a higher mix in the revenue profile, which is almost 57%. Acuité believes that any customer concentration risk exposes the entity to risks related to changes in the requirements and policies of the customer. However, this risk is partially mitigated from the agreement entered into with TSML, which provides adequate revenue visibility over the medium term.

- **Highly fragmented and intensely competitive industry**

The ferro alloys industry is marked by the presence of a large number of organized and unorganized players owing to low entry barriers. The company faces intense competition from the presence of several mid to large sized players in the said industry. The presence of a large number of players has a direct impact on pricing, restricts bargaining power having an adverse impact on margins. Acuité believes that the Company will remain exposed to the highly fragmented and intensely competitive steel industry over the medium term.

### **Rating Sensitivities**

- Sustainability in revenue growth and significant improvement in profitability margin
- Tie up with reputed clientele
- Elongation in working capital cycle

### **All Covenants**

None

### **Liquidity Position Adequate**

The company's liquidity is adequate marked by steady net cash accruals, absence of any capex plans and moderately working capital requirements. The net cash accruals of the Company stood at Rs.24.30 Cr as on March 31, 2023 as against long term debt repayment of Rs.4.17 Cr over the same period. The current ratio stood comfortable at 1.39 times as on March 31, 2023. The unencumbered cash and bank balances of the company stood at Rs.4.06Cr as on 31st March, 2023. Additionally, the bill to TSML is generated with a credit term of 30-45 days, the Company occasionally discounts the bill against letter of credit, providing the company with further financial flexibility. Further, the fund based limit is moderately utilized at ~77.32 per cent over the six months ended July, 2023. Moreover, the efficient working capital management of the company is marked by Gross Current Assets (GCA) of 104 days in FY2023 as compared to 77 days in FY2022. The company has invested in quoted investments in the last 3 years of which almost Rs. 31 Cr as on March 31, 2023 and has provided interest

bearing inter corporate deposits to friends and family of about Rs. 25.5 Cr as on year end date, which are freely available for the company's use and further enhances its financial flexibility. Acuité believes the company will maintain adequate liquidity position over the medium term backed by adequate cash accruals as against the repayment obligations, absence of debt funded capex plans and adequate free cash reserves in investments and inter corporate deposits over the medium term.

**Outlook: Stable**

Acuité believes that the outlook on TBAPL will remain 'Stable' over the medium term on account of the established relationship with its customers, locational advantage, healthy financial risk profile and efficient working capital management. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or elongation in its working capital cycle.

**Other Factors affecting Rating**

Not Applicable

## Key Financials

| Particulars                   | Unit    | FY 23 (Actual) | FY 22 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income              | Rs. Cr. | 295.30         | 304.51         |
| PAT                           | Rs. Cr. | 21.24          | 26.03          |
| PAT Margin                    | (%)     | 7.19           | 8.55           |
| Total Debt/Tangible Net Worth | Times   | 0.12           | 0.14           |
| PBDIT/Interest                | Times   | 25.39          | 20.09          |

### Status of non-cooperation with previous CRA (if applicable)

Not Applicable

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

| Date        | Name of Instruments/Facilities | Term       | Amount (Rs. Cr) | Rating/Outlook   |
|-------------|--------------------------------|------------|-----------------|--|
| 07 Oct 2022 | Term Loan                      | Long Term  | 7.92            | ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable) |
|             | Working Capital Term Loan      | Long Term  | 1.85            | ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable) |
|             | Working Capital Term Loan      | Long Term  | 3.07            | ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable) |
|             | Proposed Bank Facility         | Long Term  | 3.83            | ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable) |
|             | Working Capital Demand Loan    | Long Term  | 0.33            | ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable) |
|             | Cash Credit                    | Long Term  | 10.00           | ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable) |
|             | Bank Guarantee                 | Short Term | 3.00            | ACUITE A2 (Upgraded from ACUITE A3+)                     |
| 08 Sep 2021 | Working Capital Term Loan      | Long Term  | 3.71            | ACUITE BBB   Stable (Assigned)                           |
|             | Cash Credit                    | Long Term  | 10.00           | ACUITE BBB   Stable (Assigned)                           |
|             | Working Capital Demand Loan    | Long Term  | 1.00            | ACUITE BBB   Stable (Assigned)                           |
|             | Bank Guarantee                 | Short Term | 3.00            | ACUITE A3+ (Assigned)                                    |
|             | Term Loan                      | Long Term  | 12.00           | ACUITE BBB   Stable (Assigned)                           |
|             | Proposed Bank Facility         | Long Term  | 0.29            | ACUITE BBB   Stable (Assigned)                           |

## Annexure - Details of instruments rated

| Lender's Name       | ISIN           | Facilities                       | Date Of Issuance | Coupon Rate    | Maturity Date  | Complexity Level | Quantum (Rs. Cr.) | Rating                            |
|---------------------|----------------|----------------------------------|------------------|----------------|----------------|------------------|-------------------|-----------------------------------|
| State Bank of India | Not Applicable | Bank Guarantee (BLR)             | Not Applicable   | Not Applicable | Not Applicable | Simple           | 3.00              | ACUITE A2   Reaffirmed            |
| State Bank of India | Not Applicable | Cash Credit                      | Not Applicable   | Not Applicable | Not Applicable | Simple           | 10.00             | ACUITE BBB+   Stable   Reaffirmed |
| Not Applicable      | Not Applicable | Proposed Long Term Bank Facility | Not Applicable   | Not Applicable | Not Applicable | Simple           | 10.87             | ACUITE BBB+   Stable   Reaffirmed |
| State Bank of India | Not Applicable | Term Loan                        | Not available    | Not available  | Not available  | Simple           | 6.13              | ACUITE BBB+   Stable   Reaffirmed |



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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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